

Idaho Transportation Board

Good morning Mr. Chairman and members of the Joint Finance and Appropriation Committee.

Thank you for the opportunity to address you today.

Before I proceed, I would like to thank the Idaho Transportation Board members for their leadership.

They meet once every month, and challenge ITD to become the best transportation department in the country.

I also want to thank the Governor and his staff for their leadership and assistance.

Today's presentation

This is my sixth legislative session. When I arrived at ITD in 2010, I came with a philosophy about government.

I felt strongly that government agencies need to change, and that they need to serve the citizens. Not serve themselves.

They need to remove layers of bureaucracy and put decision-making closer to where the work is done.

They need to change their work cultures, which in most government agencies is too passive, and they need to measure their performance to make sure they are improving.

We have made all of these changes at ITD, and I believe our budget recommendation reflects my philosophy of better serving the citizens, not ourselves.

My presentation today will address the Fiscal Year 2016 Governor's budget Recommendation, our accomplishments in 2014, and the department's primary focus areas for 2015.

FY 15 Governor's Recommendation — Overview

On screen you see the Governor's Fiscal Year 2016 Budget Recommendation.

The base amount is **\$464 million**, with **1,724** full-time positions.

We are requesting to reduce this amount by an additional 28 positions.

Including adjustments, six line items, and debt service, the total is **\$555.5 million**.

FY 16 Gov. Rec. Fund Sources

This recommendation has three sources of revenue.

- **State funds**
- **Federal funds, and**
- **Other**, which includes fees and local matching funds.

FY15 Governor's Recommendation (Pie Chart)

This pie chart shows how we allocate our budget.

Idaho's economy is heavily dependent on the size of ITD's budget, and the investments we make in highway infrastructure.

That is why we put the majority of the money on the roads.

Which is why I am pleased to report that in Fiscal Year 2016, **88%** of our funding will go to the highway system, paying for contract construction, highway operations, and debt service for high-priority projects we accelerated.

The \$555 million total for ITD's budget includes both state and federal revenue.

MAP-21

The federal funds are allocated by MAP-21, which was a two-year federal bill that expired last September.

It was extended, but the trust fund can no longer operate after May 31 unless Congress acts to provide sufficient funding.

MAP-21 will have an average **\$17 billion** annual shortfall through 2015, according to the latest Congressional Budget Office estimate.

To resolve the shortfall, Congress will need to raise revenue, reduce funding to the states, or develop a combination of the two.

MAP-21 reduced Idaho's federal funding by **\$20 million** per year. If Congress does not increase revenue, Idaho's federal funding could be cut by as much as an additional **\$100 million** annually.

That is about 1/3 of our federal funding.

FTP Reduction: 5-Yr. Bar Chart

The Governor's recommendation includes a request to reduce ITD's FTP count by 28 positions.

This chart shows our FTP count over the last five years.

We want to reduce our total by an additional **28 positions** in Fiscal Year 2016. We will use the savings to reinvest in our employees and pilot new efficiencies to increase performance.

Transportation Technicians make up **1/3** of our workforce. These are the people you see plowing the snow on the highways.

Their pay is **16 percent** below surrounding states, and **21 percent** below Idaho counties. We want to pilot a program to reward employees as they increase their skills and abilities.

I am proud of our employees and their accomplishments at ITD. Paying them based on their skill levels will keep us from losing them to higher-paying agencies and will encourage them to continue improving their job skills.

Retaining FTP Funding

We may also need the funding to refill positions when necessary.

When adjusting staffing levels, we first push the envelope, and cut staffing more than we think will be necessary.

Then we use performance measures to gauge what the optimum staffing level should be.

We know we will have to slowly feed employees back in and improve processes until we reach the right balance.

We have made staffing adjustments throughout ITD.

Once we reach the most efficient staffing level, it is always with fewer employees than we started with.

Employee-driven innovations are producing better service to the taxpayers, and helping us reduce our FTP count.

Retaining FTP Funding

Most DOTs across the country fill positions as soon as they become vacant.

They are more focused on retaining positions than on making the most effective use of their resources.

But as you know, ITD thrives on innovation.

Removing **28 positions** and retaining the funding will do two things.

First, It will allow us to increase the training and skills of the people who maintain our highways and bridges.

This will result in better services to the users of the transportation system.

And second, as these employees improve their skills and abilities, it will allow us to pay them accordingly.

This will enable ITD to attract and retain the highly qualified employees needed to accomplish our mission.

Wave of Retirements

The department is currently losing many of our most experienced and dedicated employees.

We are in the midst of **50 percent** of them becoming eligible to retire in a five-year period, as is every DOT in the country.

In the last two years we have lost more than 3,400 years of experience.

It is a result of the Interstate construction era of the 1950s and 1960s. DOTs across the country hired people to design, build, and maintain the new interstate system.

Those people began to retire in the late 1970s and early 80s, and I was one of the engineers who replaced them. That was the first huge wave of retirements.

Now, the second wave has begun, and the people who were hired along with me are beginning to retire. Before we replace them, we need to know what job skills are required to meet Idaho's future transportation needs.

This gives us a unique opportunity to change the way ITD is staffed, and hire people with the skills that we will need 10 to 20 years into the future.

We now scrutinize each position that becomes vacant to determine what the needs for that position will be in the future, or if it can be moved or eliminated.

Staffing Innovations Improve Performance

For example, when the Division Administrator for Transportation Performance left ITD, rather than filling his position, we studied the division closely, then realized that dissolving it would actually improve efficiency and results.

We moved the employees closer to other people in the department doing similar work, such as planning and grant writing. This removed layers of management.

The division, which included public transportation, **had** been housed off-site in a separate facility. Moving the employees integrated them into the day-to-day operations of the department.

This increased their effectiveness and performance, but more importantly, it improved the multi-modal services they provide to the public. This is consistent with my philosophy of removing layers of management and improving customer service.

Because of our efforts, ITD's future workforce will not look the way it has for the past **60 years**. It will be smaller, more highly skilled, and motivated.

And it will provide better service.

The Results of Innovation — Recognition

Many times, the services and innovations ITD's employees provide to the public are also the best in the entire nation.

And that leads to major national recognition. In 2013 ITD received more awards in one year than any state in the 100-year history of the American Association of State Highway and Transportation Officials, also known as AASHTO.

I am pleased to report that in 2014 ----- despite being warned early on that we would not win any AASHTO awards because of our overwhelming success the previous year, we won them anyway.

In 2014, ITD earned two of the highest national honors. The **Idaho Freight Study Team** received the AASHTO President's award for Research.

ITD also brought home the prestigious **Alfred E. Johnson Award**, for a unique system that is changing the way winter maintenance is done around the world.

Line Item 1 – Operating Expenditures

Achieving national recognition for excellence is important in the transportation industry, because all of the services we provide are vital to the public. Which brings me to the first line item in the Governor's Recommendation.

Line Item one is a **\$3 million** ongoing spending authority increase in Highway Operations.

Rather than doing business as usual, we reduced our equipment budget by \$3 million. This allowed us to move that money where it can be used to improve highway operations service levels, including the repair of culverts, guardrails, pavement, and rest areas.

This will allow ITD to rent rather than purchase equipment we only use occasionally, such as vacuum trucks.

We have already reduced our equipment fleet in anticipation of renting these occasional-use vehicles rather than purchasing and maintaining them.

We will own less equipment, yet our service level will improve.

Line Items 2 - 6

The next four line items will improve customer service in the Division of Motor Vehicles.

- The first one funds larger registration-renewal letters so they can include bar codes, which will improve processing speed and accuracy. \$227,500 of the cost will be reimbursed annually to ITD by the counties.
- Item three pays for maintenance on the weigh-in-motion scales at two of our busiest ports of entry. These high-tech scales save commercial carriers millions of dollars every year in time and fuel costs.
- Item four provides DMV equipment to help county motor vehicle offices meet the growing needs of their communities.
- Item five is contingent on the passage of legislation with fiscal impact, which I will address on the next slide.

The final line item addresses the Governor's recommendation to convert all long-term part-time positions to permanent positions.

Legislation with Fiscal Impact

This year we have one item of legislation with fiscal impact.

The **\$52,500** in one-time spending authority for line item five is contingent on passage of legislation that brings Idaho into compliance with federal Commercial Driver's License requirements.

If Idaho does not come into compliance by July 8th of this year, ITD could lose **\$9.7 million** in federal transportation funding the first year.

We could lose up to **\$19.5 million** for each year of non-compliance every year thereafter.

That is approximately eight percent of ITD's federal funding.

Audit Findings

Normally at this time I would discuss legislative audit findings.

However, the Legislative Services Office has not yet publicly released the department's Fiscal Year 2014 audit.

I will now discuss federal revenue, our accomplishments in 2014, and the state's growing infrastructure needs.

Increasingly Reliant on Federal Funds

In 1996, the year Idaho last increased the user fee on fuel, state funds made up **54 percent** of ITD's total revenue. Now, that is reversed.

54 percent of our funding is federal.

The national average for federal transportation funding is **24 percent**.

Idaho is growing more reliant on federal money for roads and bridges, and the strings that accompany it.

A 2014 Pew report ranks Idaho as one of the states most heavily reliant on federal transportation revenue.

Unfortunately, federal transportation dollars are a political football, and the large urbanized states are pushing hard to get a greater portion of the highway trust fund. These are primarily donor states.

If they succeed, there will be fewer dollars for rural, donee states like Idaho. That is not a good scenario for the state's economy, or the safety of its highways.

The Results of Investing in Transportation

When we straighten a curve, add a passing lane, or design a new bridge, we are also improving safety.

In 2013, Idaho had **20% fewer** highway fatalities than in 2006, despite a **4% increase** in miles traveled annually. The number of miles driven went up, yet the fatalities went down.

A study released in July by a major university found that Idaho's fatality reduction is the third best in the nation.

As you heard in the Governor's State of the State address, GARVEE projects show much higher reductions in crashes and fatalities than the statewide average. That is because the investments modernized the design of the highways.

However, those are not Idaho's only important routes. That is why we developed a program to analyze and prioritize Idaho's transportation corridors.

This program was so innovative it won the National Roadway Safety Award in 2013.

The Results of Investing in Transportation

Transportation investments also improve mobility, because they modernize the infrastructure.

Mobility is tied to predictability.

When a company such as UPS or FedEx accepts a package for shipping, they rely on a predictable transportation system.

They need to know exactly how long it will take to deliver a shipment.

That is how they can promise to deliver a package in one day, or in three days.

Idaho-based companies also rely on ITD to provide a predictable system so they can ship and receive products on time and keep Idaho's economy moving.

Transportation investments have a great return.

And so does innovation.

The Results of Innovation

Recent innovations have improved the way we manage ITD's budget.

We studied our bonding situation and discovered a way to save **\$40 million** by restructuring our payments.

In the last five years, we created **\$39.5 million** in salary savings, thanks to our award-winning realignment.

And we added an additional **\$180 million** worth of projects to the five-year plan.

The Results of Innovation

One of ITD's most innovative practices is the way we select highway projects.

Most DOTs select projects based on system condition.

ITD selects projects based on the impact they will have on system condition, safety, and the state's economy.

This sets ITD apart from other DOTs, and is serving as a model for other states interested in improving their own economies.

Our unique project-selection process helped achieve Governor Otter's **Project 60** goals, and will be equally important in achieving the goals of his **Accelerate Idaho** program.

We work closely with the departments of Commerce, Labor, and Agriculture; and the State Police to develop tools to measure and maximize the impacts of our investments.

2015 Focus Areas

In addition to our partnerships with other agencies and the successful initiatives already underway and going strong, we will have three focus areas in 2015:

We will continue to improve our operations, using innovative business practices to move the needle forward on all ITD performance measures.

And we will focus on the development of our employees to address the loss of 50 percent of our workforce.

Our third and perhaps most important focus area will be to address the state's growing infrastructure needs.

2015 Focus: Infrastructure Needs

ITD's strategic plan emphasizes economic opportunity, which is tied directly to the condition and operation of Idaho's roads and bridges.

It is no secret that Idaho does not have enough funding to support the needs of its aging infrastructure.

Idaho's transportation system is vital to the state's economy and future, and will help determine the pace and extent of Idaho's economic growth.

The Governor's **Task Force on Modernizing Transportation Investments** found that Idaho has a **\$543** million annual shortfall in transportation funding.

Of that, **\$262 million is needed annually** just to preserve the system in the condition it is in today.

Infrastructure Needs: Cost increases

Unfortunately, our costs are steadily increasing.

- In 1996, the year Idaho last increased the user fee for fuel, ITD purchased new snowplows for approximately **\$90,000**.

They now cost more than twice that amount.

- Idaho had approximately **850,000** licensed drivers in 1996. We now have **1.1 million**.
- In 1996 the annual miles traveled per year in Idaho was around **13 billion**.

We now drive nearly **16 billion miles per year**.

But the fuel tax remains at 1996 levels.

Infrastructure Needs: Buying Power 17¢

We will maintain Idaho's aging roads and bridges with our limited funds.

But we will be doing so funded by a gas tax stuck in the 1990s.

In 1996, it was **25 cents** per gallon.

Today, nearly two decades later, it is still **25 cents**.

It has not kept pace with the economy.

Adjusted for the Consumer Price Index, or CPI, it only has the buying power of **17¢**.

The gas tax has remained flat for nearly **20 years**.

And there has been no adjustment for inflation.

Infrastructure Needs: Bridges 40 – 60 years

Idaho's bridges are well designed and have stood the test of time.

But they were not designed to last forever.

They were designed to last **40 to 60 years**.

However, at the rate Idaho currently funds its bridges, they must last **120 years**.

The older a bridge gets, the more expensive it is to maintain in good condition.

And we have hundreds of old bridges.

Every one of them is an impediment to the state's economy, and we are working hard to replace as many as we can with current funding.

But it is an uphill battle.

Infrastructure Needs

This chart shows when the bridges on the State Highway System were built.

The numbers at the top of each bar indicate the number of bridges built in each decade.

You can see the surge of bridges built in the 1960s.

That is the Interstate Construction era I mentioned earlier.

Those bridges are now beyond their design life.

Infrastructure Needs

This chart is more troubling. The numbers at the top show the bridges on the State Highway System that are more than **50 years old**.

The 2016 bar shows we are scheduled to replace nine bridges that year, but an additional **59** will become one half century old.

We are losing the battle.

Between 2014 and 2019, we will replace **87 bridges**, but despite those replacements, another **147 bridges** will reach the half-century mark.

In 2019, **908 bridges** will be more than **50 years old**.

That is nearly half of the bridges on the State Highway System.

To assure public safety, as the bridges deteriorate we will restrict them when it becomes necessary, but that does not keep them from continuing to age and deteriorate.

120 years is a lot to ask from a bridge.

Infrastructure Needs

Our pavements are also aging, and the condition is continuing to decline.

This is not the trend we want to see.

Depending on traffic loads and weather, a new highway will last approximately **20 years**.

But only if it is well maintained.

Infrastructure Needs

Moisture seeps in and erodes the base beneath the asphalt.

We develop a maintenance program for each highway to extend pavement life as long as possible.

But all roads must eventually be rebuilt ----- from the ground up.

The federal stimulus program temporarily increased the condition rating of Idaho's highways.

But the program ended, and pavement condition is once again deteriorating.

Infrastructure Needs

AASHTO found that for every **\$1** we invest now when the roads and bridges are in good condition, we avoid spending **\$6 to \$14** to repair or replace them when they are in poor condition.

If we continue to let Idaho's roads and bridges deteriorate, at a **\$14** dollar cost in the future, our annual **\$262 million** shortfall equals **\$3.6 billion** per year.

But only if we fail to act. We often talk about not wanting to pass the national or state debt onto our children.

By deferring maintenance we can do today at lower costs, we are essentially passing on a rapidly growing debt to our children.

And in this case, even to our grandchildren.

Trends: Revenue vs. Costs

As stewards of Idaho's roads and bridges, we have to balance our revenue with the daily costs of doing business.

We watch revenue trends closely, and they show that state revenue is being outpaced by inflation. ITD's buying power has decreased **26 percent** since 1996.

Today's vehicles are much more fuel efficient. And drivers travel many more miles on one gallon of gas than they used to.

The more miles driven . . . the more wear and tear on the roads. But they still pay only **25¢**.

ITD's cost trends show employee recruitment and retention costs are soaring, diesel has tripled in price, and the cost of snow plows has more than doubled since 1996.

The department is being squeezed between a revenue shortage and ever-increasing costs.

Benefits of Investing in Transportation

Idaho's economy is beginning to turn around. But to accelerate and sustain this improvement we must begin reinvesting in transportation.

This will grow the economy, and put contractors back to work. It will also reduce crashes and fatalities.

Eliminating the **\$262 million** annual shortfall would remove all restricted bridges within **10 years**.

This is important, because restricted bridges impede commerce.

For example, farmers who now use **three** partially loaded trucks to get **products** over a restricted bridge would be able to ship the same amount using only **two** fully loaded trucks.

Think of how many farmers and businesses one restricted bridge affects. That is why we want to replace all restricted bridges on the state system.

Benefits of Investing in Transportation

Addressing the **\$262 million** annual shortfall would be an investment in Idaho's future.

And it will provide great returns.

It will improve safety, and keep the transportation system in the condition it is in today.

It will accelerate the economy and help Idaho compete with its neighboring states.

It will also create or sustain an estimated **4,700 jobs**, which is the equivalent of one percentage point of Idaho's unemployment rate.

The Bottom Line

The bottom line is that the transportation system is important to everyone. Modern, well-maintained roads and bridges save lives, improve mobility, and attract new businesses.

The internal changes we have made at ITD — including realignment and changing our work culture — have placed us in an excellent position to address the state's infrastructure needs.

Morale is up, our culture is more constructive, and we are investing our funding efficiently and wisely. In 2015, ITD will deliver the construction program ahead of schedule.

And we will have an additional one years worth of projects on the shelf and ready to go.

We have improved the services we provide to the taxpayers. And we made all of these improvements with a smaller workforce that is winning major national recognition.

The transportation system is the engine of Idaho's economy, and it is our job to keep it running smoothly.

I look forward to working with each of you to make Idaho's transportation system the best it can be.

CLOSING COMMENTS

ITD had many great accomplishments in 2014, but they are just the beginning of greater things to come.

I am confident that through the vision of the governor, the Idaho Legislature, the Idaho Transportation Board, and the hard work of our employees,

ITD will better serve the users of the transportation system as we reach our goal of being the **best transportation department in the country**.

Mr. Chairman, this concludes my review of the Idaho Transportation Department's Fiscal Year 2016 budget request, the results we achieved in 2014, and our focus areas for 2015.

Thank you for your time.

I now stand for questions.